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## **THE BRITISH APPROACH TOWARDS TAXATION: CUSTOMS AND EXCISE**

**K.V. Ramakrishna Rao**

### **Introduction:**

The British approach towards the same and similar issues in India and England during the same period has been intriguing, contradicting and interesting for comparative study for Indologists. As a trading Company, when they set foot on this land,

they were requesting and begging permission to start their trading activities and set up factories for the manufacture of goods and thus they had to pay taxes for their activities carried on in India. However, the trading company started interfering in the local political affairs, gaining foothold and attaining extra-

commercial power leading to rule. Again, they had been clever in getting the technology of fire-arms (Salt-petre and its usage) from India and sell back to them with their sophistication getting huge profits<sup>1</sup>. The business of horses and guns earned them still more profits<sup>2</sup>. Finally supply of army under the guise of friendship treaty and protection with their own imposed regulations led to acquire territories from the local Kings. Thus, by 1857 they were able to exercise their influence throughout India with exceptions of Punjab, Central Provinces, North-West and North-East area. The transition of tax payer to tax-collecting status of the British had been unique in Indian history to study. That too the draining of wealth from India to England through such taxation has been interesting to study.

#### **Taxation in India:**

There has been a system of taxation in India since Vedic period percolated to local literature and thus well established throughout the ancient India<sup>3</sup>. Sukraniti interestingly gives the Tariff and percentages of tax for categorized and classified goods and services with exemption and it proves the ingenious and jurisprudence wisdom of Indian at least 2000 YBP. The Indian Taxation system had / has been unique one and time tested without affecting the taxpayers. Unlike modern concept of direct and indirect taxation, there had been only one taxation system, which was not felt by any taxpayers. The tax collection simile had been the bees collecting honey from flowers and the same example has been found in all vernacular literature of India<sup>4</sup>. The Moguls / Mohammedans disturbed such canons of taxation and upset with Islamic taxation<sup>5</sup>. The British though appeared to have followed a modern taxation system, which had been indeed taxing one.

#### **The Difference between Indian and non-Indian Taxation:**

Jeffrey G. Williamson and David Clingingsmith<sup>6</sup> mention that while the maximum revenue extracted by the Mughals as high as 40%, this paled in comparison to the effective tax rate in the early years of colonial rule: "as central Mughal author-

ity waned, the state resorted increasingly to revenue farming... (raising) the effective rent share to 50% or more..."

Further, "There is no reason to believe that when the British became rulers of the successor states the revenue burden declined (pg 7)" After initial attempts at revenue farming, Company officials aggressively introduced new taxes in an attempt to reduce their dependence on agrarian production, thus worsening the tax burden on the common man. As Richards points out in his paper,

"Land revenue continued to be the mainstay of the regime until the end of British rule in India, but its share of gross revenues was far less than under the Mughal emperors... To a larger degree, however, new taxes not imposed by the Mughals accounted for land revenue's declining share, company officials began early to diversify their tax base so that the new regime was not so overwhelmingly dependent upon agrarian production."

#### **Taxation linked with British Trade Interest:**

At one side, the British engaged officers to study the ethical values of India businessmen, traders and industry and tried to exploit them accordingly. They imposed 70-80% of duties in early 1800s for the imports of Indian cotton and silk goods in the early 19<sup>th</sup> century, whereas the British imports faced duties of only 2-4%. As a result, British imports of cotton manufactures into India increased by a factor of 50, and Indian exports dropped to one-fourth! A similar trend was noted in silk and woolen goods, iron, pottery, glassware and paper. Thus, they purposely ruined the lives of crores of artisans and craftsmen, spinners, weavers, potters, smelters and smiths by rendering them jobless and had to become landless agricultural workers.

Dadabhair Naoroji<sup>7</sup> explains the financial detriment of the British rule as follows:

"All attention is engrossed in devising new modes of taxation, without any adequate effort to increase the means of the people to pay: and the consequent vexation and oppressiveness of the taxes im-



posed, imperial and local. Inequitable financial relations between England and India, i.e., the political debt of £100,000,000 clapped on India's shoulders and all home charges also, though the British Exchequer contributes nearly £3,000,000 to the expense of the colonies".

### **The Significance of Salt and Salt Act in India:**

The significance of Salt and Salt Act has a historical background of Indian science and technology. The salt was an attracting commodity for the Europeans, and Indian were using it for many purposes. Here salt means all types of salts which are used for metal alloying, polishing and working; food processing, manufacture and preservation; dyeing, printing, leather processing, manufacturer of fire-arms, quarrying, medicine etc.

In India tax on common salt had never been there<sup>8</sup>. During the Mohammedan rule, tax on salt was imposed. Though, Akbar abolished the salt tax along with transit duties on all articles, there was no evidence that his order was carried on and thus the salt tax continued. In 18<sup>th</sup> century, an *ad valorem* duty on salt of 5% on Hindus and 2.5% on Mohammedans was imposed by the Mohammedan rulers<sup>9</sup>. This clearly proves the religious bias against and extortion from the Hindus. Obviously, the British too followed their policy, thus, they had three different regulations operated from Calcutta, Bombay and Madras.

As the salt was moving from the length and breadth of the country without any hindrance, the Mohammedan rulers of north tried to impose tax on it as transition tax i.e. when salt entered or left their territories tax was to be paid. But this inland customs was tedious and obstructive considering the vast area of India. After the Moghuls, the British slowly negotiated commercial treaties with the native states. When gained political power, the British acquired the right to manufacture and sale of salt. Railways and post & Telegraph departments were established to monitor and control the movement. The Sea Customs laws

\* were consolidated and amended by the Sea Customs

Act, 1878. To equalize and have control over India, the Indian Salt Act, 1882 was enacted to impose duty on salt manufactured in or imported by land into, any part of British India.

### **The Taxing Salt Act and looting India:**

The Salt Tax was born out of British greed: first, out of the individual greed of the servants of the East India Company; later, out of the greed of the Company itself, and its shareholders; finally, out of the greed of the British government, its parliament, and its electors... thus explains Roy Maxham<sup>10</sup>. This was in defiance of instructions from London: 'We consider it too disgraceful, and below the dignity of the present situation, to allow of such a monopoly,... Clive tried to buy off opposition by giving the Company 1,200,000 rupees per annum of the profits. London, however, was implacable ... On 1 September 1767 the Exclusive Society relinquished its monopoly on tobacco and betel nut. On 7 October 1768 it finally gave up its monopoly on salt. In the years of its operation it made the huge profit of 6,731,170 rupees... Clive Hastings and others earned huge profits out of Salt tax.

### **Violation of Salt Act:**

Ironically that there had been violation of the Salt act, as recorded by the British show that the Act was draconian and unjustifiable and perhaps. Common people did not know the implications of the Act introduced by the alien rulers. The Inland Customs Commissioner's report for 1877-78 records that 10,918 people were arrested, of whom 2600 paid fines averaging Rs.6.52, and 3252 went to prison in default<sup>11</sup>. [These figures only cover the jurisdiction within the vicinity of the Customs Line, and there would have been other arrests for salt offences in other areas of the Bengal Presidency]. This was a large increase on the previous year. The Commissioner wrote:

"This is owing to the distress arising from the high price of grain having caused some persons to resort to irregular means of livelihood; scarcity and distress causing the Customs Laws to be made frequently offended against in common with the other laws of the land".



Roy Maxham<sup>12</sup> explains the British exploitation of Salt Act in India. Clive became one of the wealthiest men in England, but that did not endear him to the British aristocracy whose approval he craved. He cut his throat and died in 1774, at the age of 49. His grave is obscure, unmarked. The salt tax and the hedge continued for nearly two centuries, barely abating even during plagues, floods and droughts<sup>13</sup>.

Thus, Mahatma Gandhi's Salt Satyagraha had been symbolic but ignited the nation's struggle for freedom, though that did not get the tax cancelled. Incidentally and ironically, he violated<sup>14</sup> the Salt Act on March 12, 1930 and got arrested! It began to taper off, and was abolished on February 29, 1947, just six months before independence. About the drain of wealth, Dadhabai Nawroji has detailed the facts in his book.<sup>15</sup>

#### **From Tax-payers to Tax-Collectors:**

The Central Excises and Salt Act was the compilation of many Acts into one enacted in 1944. As discussed above, the concept of tax on Salt was extended to other commodities and, thus in 1894, excise duty was imposed on cotton yarn of finer counts; in 1917 on motor spirit; in 1922 on kerosene; in 1930 on silver. In 1934, more commodities sugar, matches, steel ingots and mechanical lighters were brought under excise net. Duty on pneumatic tyres and tubes was levied in 1941, vegetable products in 1934.<sup>16</sup> In fact, these imposts were under separate Acts. Thus by 1944, there were 16 acts for different commodities of which 7 related to Salt! Thus nearly 44%, British legislation was on Salt and Salt alone. In fact, it was reduced to 44% from 100% in 1882. Thus, these acts were consolidated and made into one Act in 1944, giving birth to the Central Excises and Salt Act, 1944.<sup>17</sup> The word "salt" was deleted by Chidambaram in 1996 without respecting the significance behind it<sup>18</sup> and now the Act is known as Central Excise Act, 1994. The population and tax collection during 1857-58 was follows:<sup>19</sup>

Considering the poverty, famine and political atrocities of the British on India, the extraction,

squeezing and sucking of taxes from the starving Indians could be understood.

#### **Taxation and related issues dealt with in Britain:**

The Britain's main export since middle ages was wool amounting to 50% of all exports.<sup>20</sup> Between 1799 and 1816 Britain had to spend £ 57 million to the aid of her allies for battles. To raise this huge sum and pay for the maintenance of the army and the navy, taxation was raised. Though, in 1799, William Pitt introduced Income Tax in Britain, he removed in 1802 facing stiff opposition. The 1871-1880 figures show interesting details of the British exploitation of India in all aspects. The important features are as follows:<sup>21</sup>

- Ø Their expenditure in India was four to five times higher than that of in Britain, which is intriguing, as compared to the revenue. This proves that the expenditure incurred as shown in India was accounted here, but must have incurred not in India.
- Ø The revenue from land, opium and salt had been on the increase.
- Ø The debt of India had been on the increase, where that of the Britain less increase.
- Ø The merchandise, treasure (meaning gold, diamonds and other valuables) had been on the increase.
- Ø The exports from India to Britain and vice-versa had been on the increase!
- Ø While the exports from India to Britain remained steady, the exports to India from Britain doubled.

The exclusive trading rights of EIC with India was removed in 1813 and kept with the Queen directly. The cotton goods were dumped on India till 1913 amounting to 40%, while raw cotton was exported from India. Next to cotton, jute was the commodity exported.

- ü The Safeguarding of Industries Act, 1921 imposed 33.33% duty on the imports into Britain.
- ü The Abnormal Importations Act 1931 imposed high, even prohibi-



tive, duties on the imports for six months.

- ü Before the period of expiry, Import Duties Act 1932 was passed.
- ü The Import Duties Advisory Committee worked the modalities and maintained the import duty / Customs at the range 20% to 33%.

The numerous Acts introduced in the Britain prove the position of it as compared with India.<sup>22</sup>

- v The Health and morals of Apprentices Act 1802 – abolition of night work, fixed working hours, as they were made to work 13 to 15 hours per day!
- v The Factory Act 1802 – prohibiting the employment of pauper apprentices, free or non—apprentice child labour etc.!
- v The new Poor Law of 1834 – dealing with the poverty of Britains!
- v The Factory Act 1833 – to abolish child labour, fix ten-hour per day as working hours etc.
- v The Collieries Act 1842 – which prohibited the employment of women and girls underground and required winding gear!
- v The Factory Act 1844 – prohibited the employment of children under eight in textile factories fixing working hours at 6 hours!
- v The Factory Act 1847 – imposing maximum of ten hours on the working day of both women and children in textile factories.
- v The Public Health Act of 1848 – considering the worst sanitary conditions of sewerage, drainage, scavenging and water supply!
- v The Artisans' Dwellings Act of 1875 – considering the healthy

condition of their houses meant for different people.

- v The Reform Act 1884 – giving right to vote for the rural worker.

As the above Acts were closely related to manufacture of goods, excise and Customs duties, taxation etc. they are mentioned here for comparison. It is astonishing to know the purpose of each Act introduced as they prohibited certain inhuman activities carried on in Britain, implying that women were treated badly, children employed in factories, there were no fixed working hours and many were used a free-labour i.e., slaves. This means that the British were far behind the Indians even during 19<sup>th</sup> century! Thus, the taxation was adopted and adapted in such a way to advantage Britain only and it proves the unethical financial, extra-judicial and immoral economic practices followed by the British gentlemen. The British Elephant had entered the Indian paddy-fields and spoiled the entire Indian crop, thus, the proverbial Indian axiom was proved and the Indian bees tried to such the dried flowers and died along with such flowers.

### **Taxed People of India and Britain:**

Ironically, the social legislation as found that too enacted during a short period in the both countries shows alarming conditions. The poor condition of rural Britain expose the over-enjoyment life by the EIC officials, directors, Lords and Royal families at the cost of common-people. However, as the British could have exposure about the manufacture of goods at different counties, there could be immediate revolutions there in all spheres – Industrial revolution, scientific revolution with dramatic inventions of gadgets, apparatus and machines! Though, India had been poor, the position considering the above listed Acts. However, it has to be noted how the British could then control Indians? It is evident that they controlled Indian exploiting their ethical and moral values ingrained and at the same time using brutal force with guns and tanks crushing uprisings wherever and in whatever forms exhibited. But, the ultimate aim was to extract revenue through unjustified taxation.



Taxation against the culture, tradition, heritage and civilization of people:

The British as rulers like their predecessors followed a taxing policy of sucking the blood of Indian. Ultimately, the extracted and taxed wealth was drained out of India only. Moreover, the revenue collection included the "treasures" as has been recorded by them were valuables of Indian heritage looted and forcefully taken away from the temples, Kings and Queens and particularly from other common women<sup>23</sup>. So as the Mohammedan / Moghuls looted Indian treasures, the British too followed the same path, as otherwise, the Kohinoor diamond and Peacock Throne are in the possession of the British, that too, particularly with Royal family! The Salt Tax has been the most heinous blood sucking tax ever found on the earth imposed on Indians. Not only manufacture of many goods were banned and prohibited, but also important Indian professions. The tribal, village and rural industries were targeted to the extinct! though, at the other side, they projected themselves as saviours of such tribals, Villagers and rural people. How much Indian inherited treasures of valuables including sculptures, ornaments, coins, palm-leaf books and other valuables would have been in their museums, archives and private collections? Had they legally exported from India, they would have paid duty and India would have become enriched, but what happened was otherwise as recorded in the history..

#### Conclusion:

Generally, Customs duty is imposed on the goods imported into India and Excise duty on the

goods exported out of India. However, as the British could not control or govern entire India, they imposed Customs duty on the goods brought inside the British territories, as such goods might affect their goods manufactured. Similarly, the goods manufactured on and on behalf of and by the EIC factories were exempted, but that of Indian and other European factories were subjected to Inland-Customs duty. In this way, they levied, charged and collected excessive taxes from Indians amounting extortion and looting excelling their Mohammedan-Moghul predecessors. Javier Cuenca Esteban<sup>24</sup> points out while the transfer from India to England between 1757 and 1815 was 30.2 million Sterling there was not compensating import for India. To suppress, stop and kill the Indian exports, they had gone to the extent of destroying Indian Shipping. They gave a death blow to Indian ship-building<sup>25</sup> by a notification issued by the EIC in the Calcutta Gazette (Supplementary) of 29<sup>th</sup> January 1789. The Registry Act of 1815 completed their wish, and through which they imposed 15% duty on the ships built in India, besides prohibiting heavy ship building.<sup>26</sup> Though, the British ships were owned by them, the mariners, sailors and others were Indians and they were not treated as the British citizens.<sup>27</sup> In other words, many times, they were exploited and in worst cases sold as slaves in England and as well as during the sailing.<sup>28</sup> With the taxes converting into income, there had been sudden Industrial revolution and betterment of England, when India was suffering from poverty, famine and decay.

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- 2 .....The Astronomical Pursuits of Roberto de Nobilli (1577-1656), a paper presented at SIHC, Madurai, 2005.
- 3 .....Taxation through Ages (up to 712 A.D), Chennai Vani, Madras, 1997, pp16-19; Chennai Deep, No.3 Chennai/Madras, 2003, pp. 20-23.
- 4 This example is found even in the ancient Tamil Sangam Literature.
- 5 Jizhiya is one example. Moreover, different percentages of the ad valorem were used for Mohammendans and non-Mohammedans.
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  - 22 These Acts were enacted to tackle Child labor, women-workers, sewerage, drainage and scavengers and night soil handling people, workers over-working (Ten-hour movement). The "pauper apprenticeship" was a continuing tradition of Britain exploiting the children, who were invariably smuggled out from the colonies mainly from African and Indian coasts. The European companies had indulged in such children and women trafficking as proven by their own documents. For details: K.V. Krishna Rao, *The British Approach towards slavery and Bonded-labour*. A. Paper presented during the fourteenth session of Tamilnadu History Congress held at Madras University from December 14th to 16th 2007.
  - 23 Peter Anker (1744-1832), the Tranquebar Collector took away "treasure" containing valuable Bronzes of Hindu deities, painting and other artifacts. The collection of Partholomius Ziegenbalg (1683-1719) included original palm-leaf books, samples of Herbs, aromatic plants etc. musical instruments. When he went to Europe in 1715, he took many of his collections to the envy of the Company directions.
  - 24 Javier Cuenca Esteban, *Fiscal and military dimensions of Britain's regulated trade with Asia 1765-1812*, <http://www.helsinki.fi/iehc2006/papers2Cuenca.pdf>
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  - 28 K.V. Ramakrishna Rao *The British Approach towards Slavery and Bonded-labour*, op. cit, to appear in the proceedings of Tamilnadu History Congress 2007. The British of 18th century enjoyed the slavery-benefits as they smuggled Indian slaves out India and made plantation workers in the oceanic islands. Thus the triangular benefits were - free labour (huge profits to the pirates and slave smugglers), plantation growth and sale of produce.